USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 5/17/2005

GAIN Report Number: MY5023

Malaysia

Retail Food Sector

Retail Food Malaysia

2005

Approved by:
Jonathan Gressel
U.S. Embassy, Kuala Lumpur

Prepared by:
Spire Research Consulting

Report Highlights:
Malaysia's GDP grew by 7.0% in 2004 and is forecast to grow by 5 to 6 percent in 2005 and 2006. Retail food sales from the supermarket and hypermarket increased from $2 billion in 1999 to $3.16 biliion in 2003. Malaysia has a large and increasingly sophisticated food and beverage market that is supplied by both local and imported products. Increasing personal income and urbanization of Malaysia's population has created changes in the consumer lifestyle. Best product prospects include frozen turkey, snacks (potato and cereal based), frozen vegetables, fresh temperate fruits, dried fruits, canned fruits, edible nuts, fruit juices, wine and pet food.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Kuala Lumpur [MY1]
[MY]

Table of Contents

1. Country Summary

Overview of Malaysia

Location of Malaysia	South East Asia
Malaysia's land area	329,735 square km (127, 311 square mile)
Form of government	Parliamentary government under constitutional monarchy
Capital	Kuala Lumpur
Population in 2003	25.05 million
Composition of population	Bumiputera (61.3%), Chinese (24.5%), and Indians (7.2%), other Malaysians (1.2%), and non-Malaysians (5.9%)
Religious composition	Islam (56%), Buddhism/Confucianism/Taoism (29%), Hinduism (7%), Christianity (6%), and others (2%)
Major languages	Malay, English, Chinese (including various dialects), and Tamil
Major festivals	Eidil Fitri (Islam), Chinese New Year, Deepavali (Hindu), Christmas, and Harvest Festival (East Malaysia only)

Malaysia is located in South East Asia and slightly larger than New Mexico. The country comprises of Peninsular Malaysia (located between Thailand's southern border and Singapore) and East Malaysia (occupying nearly one-third of northern Borneo Island). The country has a hot and humid climate with seasonal monsoons rains.

Malaysia's population in 2003 stood at 25.05 million and nearly 80% of the population resides in Peninsular Malaysia while the remaining 20% reside in East Malaysia. Malaysia's population consists of various ethnic groups. The indigenous group known as *Bumiputera* accounts for 61% of the population and comprises of ethnic groups such as the Malays, Ibans, Dayaks, Melanaus, Kadazans-Dusuns, Bajaus, and Dayaks. Chinese account for 24% of the population followed by Indians at 7%. Islam is Malaysia's official religion and nearly 56% of the population professes to the Islamic faith. Other major faiths practiced in Malaysia include Buddhism, Taoism, Hinduism, and Christianity. Thus various religious and ethnic festivities are celebrated and are public holidays in Malaysia.

The proportion of Malaysia's population living in the urban area increased from 50.7% in 1991 to 62.0% in 2000 while the proportion living in rural areas declined from 49.3% to 38.0%. The proportion of Malaysia's urban population is expected to increase further in the coming years due to greater job opportunities coupled with higher pay compared to the rural areas. Thus the average income of the working population living in the urban areas is 1.8 times greater than those in the rural areas.

Major Urban Areas and Their Population (2003)

City/Town	State	Population (Million)	% of Total Population
Kuala Lumpur	Federal Capital	1.40	5.6%
Penang (state)	Penang	1.30	5.2%
Johor Bahru	Johor	0.68	2.7%
Klang	Selangor	0.68	2.7%
Ipoh	Perak	0.58	2.3%
Ampang	Selangor	0.50	2.0%
Petaling Jaya	Selangor	0.45	1.8%
Kuching	Sarawak	0.45	1.8%
Shah Alam	Selangor	0.33	1.3%
Kota Kinabalu	Sabah	0.33	1.3%
Seremban	Negri Sembilan	0.30	1.2%
Kuantan	Pahang	0.30	1.2%
Total		7.59	29.1%
Malaysia's Total Population in 2003		25.05	100.0%

Source: Malaysian Statistics Department.

Malaysia has enjoyed moderate to strong economic growth since the 1990s except in 1998 during the Asian Economic Crisis and 2001 during the global economic slowdown. Malaysia's GDP per capita is among the highest in South East Asia after Singapore and Brunei. Inflation and unemployment in Malaysia remains relatively low and the country has nearly 1 million foreign workers mainly employed in unskilled and semi-skilled work. Malaysia's currency has been pegged to the US dollar since 1998 and currencies, such as the Euro and Japanese Yen, have appreciated against the US dollar and Malaysian Ringgit since 2000.

Malaysian Economy in Brief

	2000	2001	2002	2003	2004e	2005f
GDP (US$ billion)	90.3	88.0	94.9	103.7	111.0	117.2
GDP per capita (US$)	3,844	3,665	3,880	4,131	4,319	4,455
Income per capita (US$)	3,529	3,386	3,516	3,710	4,036	4,197
Exchange rate - RM to US$1	3.8	3.8	3.8	3.8	3.8	3.8
Overall CPI	1.5%	1.4%	1.8%	1.1%	1.5%	1.7%
Population (million)	23.5	24.0	24.5	25.1	25.6	26.1
Unemployment rate	3.1%	3.6%	3.5%	3.6%	3.8%	3.8%

Source: Malaysian Statistics Department, Ministry of Finance, and Asian Development Bank.

Malaysia's GDP is expected to grow by 7.0% from US$103.7 billion in 2003 to US$111.0 billion in 2004. The Asian Development Bank forecasts Malaysia's GDP to continue to grow but at a slower pace of 5.6% in 2005 to reach US$117.2 billion. Inflation and unemployment will continue to remain low and per capita income to grow in 2004 and 2005 in line with Malaysia's economic growth trends.

2. Market Summary

2.1 Malaysia's Retail Food Sector

Malaysian households spend an average 24% of their household income on retail purchase of foods. Purchase of foods from the retail outlets increased by 23.6% from US$7.55 billion in 1999 to US$9.33 billion in 2003. This average to nearly US$370 spent annually by each individual on retail purchase of foods in 2003.

Retail Sales of Foods (US$ Mil)

1999	2000	2001	2002	2003	Avg. Annual Growth
7,547	8,442	8,424	8,921	9,330	5.5%

Source: Euromonitor.

Imports of foods (primarily for consumer consumption) increased by 11.9% from US$1.59 billion in 1999 to US$1.78 billion in 2003. Nearly two-thirds of the imports are for processed foods (e.g. dairy products, processed meat, canned foods, confectionary, and sauces) and a third are for primary foods (e.g. fresh fruits and vegetables).

Imports of Foods Primarily for the Consumer Consumption (US$ Mil)

Food Category	1999	2000	2001	2002	2003	Avg. Annual Growth
Primary foods	536	551	597	657	661	5.5%
Processed foods	1,058	1,150	1,282	1,231	1,123	1.9%
Total imports	1,594	1,701	1,879	1,888	1,784	3.0%

Source: MITI Report 1999- 2003.

The retail food sector includes the supermarkets and hypermarkets, convenience stores, and traditional markets. The traditional markets include the independent grocery stores ("mom and pop" stores) and wet markets. Traditional markets account for 54.0% of the total retail food sales in 2003. This is followed by the supermarkets and hypermarkets (33.9%) and convenience stores (2.4%).

Retail Food Sales and Outlets

Retail Sector	Sales in 2003 (US$ Mil)	Avg. Annual Growth (1999-2003)	Number of Establishments in 2003
Independent grocery stores	4,385	2.9%	28,000
Supermarkets and hypermarkets	3,163	12.3%	438
Wet market operators	653	4.7%	29,000
Convenience stores	228	21.9%	870

Retail Food Sales and Outlets

Retail Sector	Sales in 2003 (US$ Mil)	Avg. Annual Growth (1999-2003)	Number of Establishments in 2003
Others	901	-	-
Total retail sales	9,330	5.5%	

Source: Euromonitor, ACNielsen, trade sources, and Spire Analysis.

Supermarkets and Hypermarkets. Supermarkets (often established as supermarket cum department stores) and hypermarkets are found in major urban areas where there is a large population of middle to high-income consumers. Smaller size supermarkets are also found in the smaller towns where there is a significant population of middle income consumers. Both supermarkets and hypermarkets sell a wide range of imported and locally produced fresh and processed foods besides non-food items.

Convenience Stores. Convenience stores include those operating solely as convenience stores and those operated by gas stations (gas marts). Convenience stores generally operate long hours and some round the clock. Convenience stores including gas marts are generally located in the residential areas with a significant population of middle to high-income consumers and in the business areas. Gas marts are also found along Malaysia's expressway stretching from northern to southern Peninsular Malaysia. Convenience stores sell a limited range of food items and are generally snack foods, beverages, confectionaries, ice cream, and bakeries often purchased in small quantities.

Traditional Markets. Independent grocery stores and wet markets are found in the residential areas of both urban and rural towns across Malaysia:

- Most of the food items sold by grocery stores are canned foods, dried foods, snack foods, ice cream, and soft drinks. Fresh produces such as fruits and vegetables are seldom sold and usually do not sell frozen or chilled foods other than ice cream. However, grocery stores known as mini-markets, which are larger and more modern than the traditional grocery stores, would sell these food items. However, they are relatively fewer in numbers compared to the traditional grocery stores.

Wet markets include daily wet markets operating in permanent buildings and weekly morning and night markets operating in non-permanent locations. Food items sold are generally fresh fruits, vegetable, meat and fish. Imports are usually apples, oranges, grapes, carrots, potatoes, onions, cabbages, and broccoli.

2.2 Consumer Trends

Increasing personal income and urbanization of Malaysia's population has created changes in the consumer lifestyle. Consumers are also demanding more variety and quality in the foods they consumed and are increasingly exposed to western foods. Consumers are also experiencing a busier pace of life and creating demand for more processed foods that are convenient to prepare than traditional cooking. Consumers are generally price sensitive towards purchases of foods but those from the middle to high-income group are willing to pay more for quality foods.

Shopping at the supermarkets and hypermarkets is becoming increasingly popular at the expense of the traditional grocery stores. Supermarkets and hypermarkets offer shopping convenience by selling a wide range of food and non-food items in a comfortable shopping environment. Shopping at the traditional grocery stores will continue to remain but their numbers are expected to gradually decline. Wet markets will remain popular among consumers since they offer a wide variety of fresh produces. Though retail food sales from the convenience stores are relatively small (compared to the other retail sub-sectors), they are increasingly popular since they provide consumer convenience by operating long hours.

Various cultural and religious festivals are celebrated since Malaysia's population is multi-cultural and multi-religious. These celebrations include Eidil Fitri (Islam), Eidil Adha (Islam), Chinese New Year, Christmas, Deepavali (Hindu), and the Harvest Festival (East Malaysia). High quantities of foods and beverages are consumed during these festivities. For example:

- Beef, chicken, pastries, and soft drinks are consumed during the Muslim festival of Eidil Fitri; and
- Mandarin oranges or tangerines, seafood, chicken, ducks, pastries, soft drinks, and beer are consumed during Chinese New Year.

Sales of various food items increase prior to the festivities since they often last for days. During the festivities, friends and relatives are often invited to visit each others' homes whereby foods and drinks are served generously.

56% of the population is Muslims who do not consumer pork but only meat (beef, lamb, and poultry) and meat products that have been slaughtered according Islamic practices known as *halal*. *Halal* foods also include processed foods containing any ingredients of animal origin such as gelatin and animal protein extracts including beef and chicken stocks. Thus Muslim consumers often seek food products that are *halal* identified by a *halal* logo on the packaging.

2.3 Advantages and Challenges For US Exporters

US exporters face both advantages and challenges in Malaysia's retail food sector. The market is open to exporters and the government does not place any restrictions on import of foods (except rice) provided import regulations on foods are complied. US exporters face competition not only from local producers but also exports from countries close to Malaysia.

Advantages and Challenges for US Exporters

Advantages	Challenges
Malaysia's economy will continue to grow resulting in an increasing number of consumers in the middle income group demanding greater variety and quality of foods consumed.	Though consumers are demanding greater variety and quality in the foods consumed, they are generally price sensitive towards purchases. Thus retailers often purchase food items that are more affordable to the majority of the consumers.
Increasing consumer health consciousness has resulted in demand for healthier foods providing opportunities for food manufacturers to develop, produce, and market such foods.	Though food items containing genetically modified (GM) foods are permitted, proposed regulations on labeling of foods containing more than 3% GM food material may discourage consumer purchase.
The government has an open door policy towards import of foods into Malaysia and there are no quotas on any food items imported from any country except rice.	The government imposes an import duty and sales tax on many processed foods that are primarily for the consumer market. However, lower import duties are imposed on processed foods produced in the ASEAN countries.
Shopping for foods at supermarkets and hypermarkets is becoming increasingly popular. Furthermore, new supermarkets and hypermarkets are being established throughout Malaysia where there is a significant population of middle to high-income consumers. Thus supermarkets and hypermarkets are providing greater market access for imported foods including chilled and frozen foods since these retail outlets have cold storage facilities.	Countries that are close to Malaysia have a faster delivery time and lower freight cost to Malaysia compared to US exports. Other countries are able to supply foods at lower pries than imports from the US. For example, imports from China, Thailand, Indonesia, and India are known for their relatively low prices. Australia and New Zealand are known for their *halal* beef and lamb and their dairy products. European exporters have established their own market for jam, confectionary, pasta, and juices.
Consumers are increasingly exposed and accustomed to eating western and other Asian foods and willing to try new foods. Consumers are also increasingly eating more processed foods, fresh fruits, and vegetables from the temperate climate.	Though consumers are increasingly exposed to western foods through eating at western restaurants and fast food establishments, many are unfamiliar on preparing and cooking these foods. For example, many consumers are unfamiliar with preparing and cooking seafood from the cold waters and pasta dishes.

Advantages and Challenges for US Exporters

Advantages	Challenges
Foreign including US brands are available especially in the supermarkets and hypermarkets. US brands such as Campbell Soup, Kellogg's, Kraft, Prego, Coca-Cola, Pepsi-Cola, Heinz, Washington Apple, and Wise are well known brands.	56% of the consumers are Muslims who consume *halal* beef, lamb, and poultry and their products. Furthermore, only *halal* meats are allowed to be imported into Malaysia. Australia and New Zealand have an established *halal* food industry for their beef and lamb exports to Malaysia while Denmark and the Netherlands for frozen *halal* poultry.
The US is a major supplier of many food items to Malaysia. Major imports from the US include apples, oranges and frozen turkey. Other imports from the US include sauces, ketchup, food seasonings, cake mixes, dried prunes, fruit juices, and raisins.	US exporters face competition from Malaysian food manufacturers, who produce not only local food items but also western foods such as sausages, fruit juices, dairy products, confectionary, and savory snacks. US exporters also face competition from multinational food manufacturers (e.g. Nestle) operating in Malaysia and Southeast Asia with an already established distribution network in the country.

Source: Trade sources.

3. Road Map For Market Entry

3.1 Entry Strategy For US Food Exporters

US exporters should understand their major competitors, local consumer trends, the distribution channels available, and key developments in the retail sub-sectors before adopting a market entry strategy. Such an understanding ensures the most effective strategies are adopted to distribute and market the exporter's products.

Key Entry Strategies for US Exporters

Strategy	Reasons
Acquire *halal* certification from recognized Islamic institution in the US.	Muslim consumers account for 56% of Malaysia's population. Muslims are forbidden to eat pork and consume beef, lamb, and chicken that are *halal*. Furthermore, the government allows only imports of beef, lamb, and poultry that are *halal.* Ensuring the meat is *halal* establishes a market for US meat exporters in Malaysia.
Market, distribute, and promote through the supermarkets and hypermarkets.	Most of the supermarkets and hypermarkets (e.g. Carrefour, Jaya Jusco, The Store, Tesco, and Giant) are chain operations located throughout Malaysia with newer outlets being established. Shopping at these outlets is increasingly popular among consumers because of the wide variety of food and non-food items sold. Furthermore, these outlets have cold storage facilities to store and display chilled and frozen foods.
Promote food products to create consumer awareness and loyalty.	The market is competitive and a wide range of foods from local producers and imports are available in Malaysia. Promotional activities have an impact in creating consumer awareness and loyalty. Consumers are familiar with phrases such as "Premium Australian *Halal* Beef", "Norwegian Salmon", "New Zealand Lamb", "Washington Apples", and "California Raisins" due to promotional activities. Consumer health consciousness has created opportunities for marketing healthier foods. Some foods are promoted as being healthier using phrases such as "high in calcium", "low fat", "no cholesterol", "high in fiber", "no sugar added", and "high in vitamin C". Thus US exporters should take opportunities to promote their foods as healthier foods. Examples of promotional activities include radio and television talk shows, press releases, media advertising, product brochures, contests, food festivals at supermarkets and hypermarkets, and on the packaging itself.

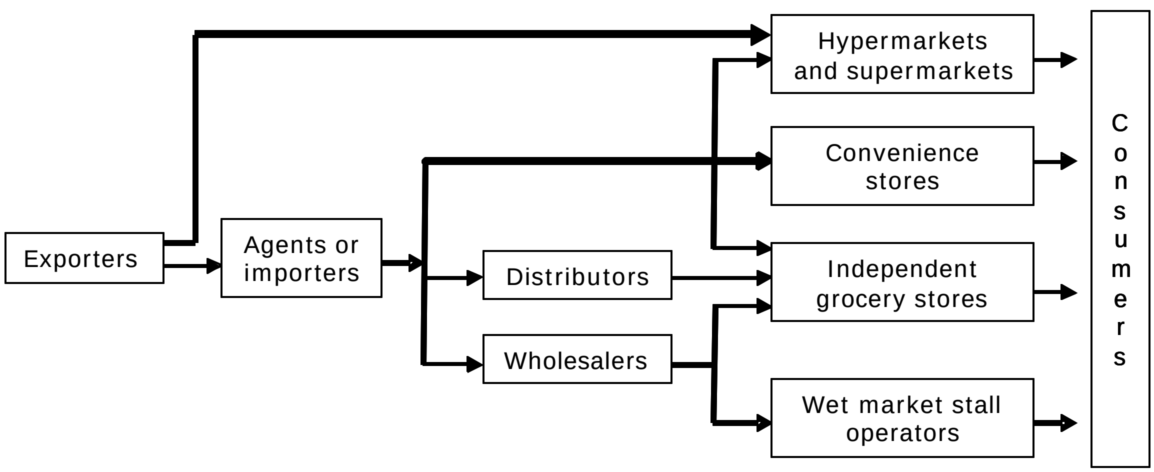
Key Entry Strategies for US Exporters

Strategy	Reasons
Processed foods should be acceptable to local tastes and have appropriate packaging.	Local consumers are becoming accustomed to western and other Asian foods. Thus US exporters should determine whether the processed food intended for export are acceptable to local tastes. Simple food taste trials conducted on a few local consumers are recommended. Local consumers may not consume some foods in large quantities or on a regular basis. Some foods in large packaging maybe considered to costly for many consumers to purchase. Thus smaller packaging should be considered. Malaysia is a multi-lingual country and labeling on packaged and canned foods sold in Malaysia are usually in two or at most three languages. English, Malay, and Chinese are the most common languages used.
Appoint importers or agents that best meets the needs of the exporter.	Local food importers and agents have a network of distributors and retailers. Furthermore, they are familiar with regulatory requirements, clearance at the port of entry, and logistics to transport the imported foods. Each importer or agent have their own peculiarity in their import and distribution channel. For example, some focus distribution on specific geographical markets. There are those who would import if appointed as a sole importer and those who would import similar foods from other exporters. An importer usually handles a specific food category such as dealing in fresh fruits and vegetables, chilled or frozen foods, or dried foods. Thus it is important for the exporter to appoint an importer or agent that meets the exporter's requirements. The US exporter should also decide whether to appoint a sole or multiple importers or agents. Like most businesses in Asia establishing a good business relationship improves the prospects of conducting business in Malaysia. A cordial business relationship improves business confidence and communications between the partners and also market access. Malaysia's population is multi-ethnic and multi-religious and therefore advisable to appreciate simple local customs when conducting business in Malaysia.

3.2 Market Structure

Importers and indent agents generally handle imports of foods. Importers purchase and import directly from the exporters while agents earn commissions by collecting orders from distributors or retailers before placing orders to the exporters. Importers and agents often market directly to supermarket, hypermarket, and convenience store chains and also to independent grocery stores that purchase in large quantities. However, they generally distribute through distributors to grocery stores that purchase in smaller quantities and those located too far away from their business operations. Another distribution channel for the importers and agents is through the wholesalers and are generally for fresh fruits and vegetables. With the emergence of foreign retail players, some hypermarkets such as Dairy Farm (Giant) and Carrefour are sourcing their products (e.g. dry goods and fresh produces) directly from the exporters.

Distribution Channel for Imported Retail Foods



3.3 Regulations on Imported Foods

There are no government quotas on import of any foods into Malaysia from any country except rice. Customs formalities are straightforward and cleared rather quickly at the port of entry. However, agriculture or health officials conduct random checks and testing on food consignments at the point of entry. Imported foods that that do not meet regulatory health requirements are rejected or destroyed.

There is no government regulation banning or restricting imports of genetically modified (GM) foods at this moment. However, the Food Safety and Quality Control Division under the Ministry of Health is proposing mandatory labeling on foods containing more than three percent GM material.

Import Regulations

Issues	Requirements
Labeling for processed foods	■ To indicate the products' weight or volume, ingredients according to proportion including additives, alcohol, and animal content. Expiry dates are required on foods with a short shelf-life. ■ Nutritional claims on the labels for certain product categories must adhere to food regulations. ■ Nutritional information is required on foods for babies and children, breakfast cereals, and foods for dietary purposes. ■ All imported processed foods must show the name of the manufacturer and importer or importing agent. ■ If the above are not mentioned on the packaging, the details printed on labels affixed onto the packaging are acceptable.
Meat products (beef, lamb, and poultry except pork)	■ Imported *halal* meat and meat products (excluding pork) must be from a plant approved by the Malaysian Islamic Development Council and certified by a recognized Islamic institution based in the country of export. ■ Meat and meat products require an import license and the meat product must be free from anthrax and bovine spongiform encephalopathy. Import licenses for chicken meat is sometimes limited to control supplies.
Use of food additives	■ Regulations on maximum permissible level of specified additives have to be followed including preservatives, dyes, flavoring substances, antioxidants, and food conditioners.

Source: Ministry of Health.

3.4 Sector Profile

Supermarkets and Hypermarkets. Supermarkets and hypermarkets are located throughout major urban areas of Malaysia where there is a significant population of middle to high-income consumers. The number of supermarkets and hypermarkets increased from 387 in 1999 to 438 in 2003 and their numbers are expected to increase further in the next five years. This sub-sector sells a wide range of imported foods such as fresh fruits and vegetables and chilled, frozen, canned, and dried foods.

Major reasons for the popularity of shopping at these establishments among consumers are:

- The wide selection of food and non-food items under various brands;
- Comparatively low prices of goods sold especially among hypermarkets; and
- Comfortable shopping atmosphere and clean environment

This sector is also gaining popularity among consumers in the lower-income group. Smaller size supermarkets cum department store chains are also found in the less urban towns where there is a significant population of consumers in the middle-income group.

Retail food sales from this sub-sector increased from US$2.00 billion in 1999 to US$3.16 billion in 2003. This was an increase from 26.5% in 1999 to 33.9% in 2003 of the total retail food sales. Sales from this sub-sector are expected to increase further to US$4.37 billion in 2006 to account for 39.9% of the total retail food sales. Foreign supermarkets and hypermarkets operating in Malaysia are joint investments between foreign and Malaysian businesses.

Major Supermarkets and Hypermarkets

Company (Outlet Type)	Parent Company Ownership*	Sales in 2003 (US$ Mil)	No. of Establishments	Major Locations of Establishments
Dairy Farm (Giant and Cold Storage) (Supermarkets and hypermarkets)	British	408	56	Kuala Lumpur and major towns in Malaysia
Jaya Jusco (Supermarkets cum department stores)	Japanese	332	10	Kuala Lumpur and nearby towns
The Store (Supermarket cum department stores and hypermarkets)	Malaysian	297	38	Smaller towns in western Peninsular Malaysia
Carrefour (Hypermarkets)	French	234	7	Towns near Kuala Lumpur and major towns in western Peninsular Malaysia

Major Supermarkets and Hypermarkets

Company (Outlet Type)	Parent Company Ownership*	Sales in 2003 (US$ Mil)	No. of Establishments	Major Locations of Establishments
Tesco (Hypermarkets)	British	226	5	Towns near Kuala Lumpur and in northern Peninsula Malaysia
Makro (Warehouse club)	Dutch	205	8	Towns near Kuala Lumpur and in northern Peninsula Malaysia
Parkson (Supermarkets and hypermarkets)	Malaysian	75	6	Towns near Kuala Lumpur and in western Peninsular Malaysia
Billion Shopping Centre (Supermarkets)	Malaysian	34	22	Smaller towns in Peninsular Malaysia
Pasaraya Hiong Kong (Supermarkets)	Malaysian	34	21	Smaller towns in Peninsular Malaysia

*Source: Published company information including websites, trade sources, and The Star newspaper. Note: *Foreign companies operating in Malaysia have Malaysian investments.*

Convenience Stores. Convenience stores including gas marts are generally found in the residential areas with a significant population of middle to high-income consumers and in the business areas. Gas marts are also found along Malaysia's expressway stretching from northern to southern Peninsular Malaysia. Those operating solely as convenience stores usually operate 24 hours per day and those operating as gas mart usually operate 16 hours per day. The number of convenience stores increased from 400 in 1999 to an estimated 870 in 2003. A third of these operate solely as convenience stores and two-thirds are operated by gas stations.

Convenience stores sell a limited range of food and non-food items often purchased in small quantities. Prices of the food items sold are generally higher than the supermarkets and hypermarkets. Common food items sold include snack foods, beverages, confectionaries, ice creams, and bakeries. Convenience stores are increasingly popular since they offer consumer shopping convenience by operating long hours. Convenience stores compete by offering other services such as automatic teller banking services, mini café's, take-away light meals, courier, and fax services.

Food sales from this sector doubled from US$105 million in 1999 to US$228 million 2003 increasing from 1.4% to 2.4% of the total retail food sales during the period. Food sales are expected to increase further to US$413 million by 2006 as the number of convenience stores increases. Marketing through the convenience stores should not be considered as a major distribution channel for US exporters but as supplementary since sales of any particular food item is generally small. Furthermore, food items sold are generally snack foods, beverages, confectionaries, ice creams, and bakeries.

Major Convenience Store Chains

Company	Parent Company Ownership*	Sales in 2003 (US$ Mil)	No. of Establishments	Major Locations of Establishments
7-Eleven (Sole convenience store)	US	55	217	Major urban towns and cities across Malaysia
Shell (Gas mart)	Anglo-Dutch	59	260	Across Malaysia
Petronas (Gas mart)	Malaysian	42	190	Across Malaysia
ExxonMobil (Gas mart)	US	34	170	Across Malaysia
Caltex (Gas mart)	US	17	105	Across Malaysia
BP (Gas mart)	British	11	80	Across Malaysia
ProJeT (Gas mart)	US	8	33	Major urban towns and cities across Malaysia

*Source: Published company information including websites, trade sources, and The Star newspaper. Note: *Foreign companies operating in Malaysia have Malaysian investments.*

Traditional Markets. Traditional markets include the independent "mom and pop" grocery stores and the wet markets. They are located in residential areas in both urban and rural towns across Malaysia.

The number of independent grocery stores declined to nearly 28,000 in 2003, as consumers prefer shopping at supermarkets and hypermarkets. Common food items sold are canned foods, dried foods, snack foods, ice cream, and soft drinks but generally do not sell fresh produces and chilled and frozen foods except ice cream. Some grocery stores located in the urban areas have evolved into mini-markets and are slightly larger and sell a wider range of foods including fresh, chilled, and frozen foods. There are an estimated 1,000 mini-markets located across Malaysia. Food sales from the independent grocery stores were US$4.39 billion in 2003 accounting for 47.0% of the total retail food sales.

Shopping at wet markets is still popular among consumers and there were an estimated 29,000 small businesses classified as wet markets in 2003. Wet markets in Malaysia either operate on a daily basis in permanent buildings or on a weekly basis in open locations. Food items sold at the wet markets are mainly fresh fruits and vegetable, local beef and chicken, and locally caught fish or imported from Thailand. Imported food items sold at the wet markets are usually apples, oranges, grapes, carrots, potatoes, onions, and broccoli. Food sales from the wet markets were US$653 million 2003 accounting for 7.0% of the total retail food sales.

4. Competition

4.1 Competition Facing US Food Exporters

The three major food exporting countries to Malaysia are China, Australia, and Thailand. This is followed by Indonesia, New Zealand, India, and the US.

- China's key strengths are low prices of its foods and closeness to Malaysia. Imports from China were once perceived as of low quality but has since improved especially its fresh produces. China competes directly with the US for temperate fresh fruits and vegetables since both countries are in the same growing season.
- Australian exporters target Malaysia as one of the potential markets for their food exports. Australian food products are perceived by consumers as reasonably priced and of high quality. Australia is in the opposite growing season than China and the US and therefore does not compete directly with these two countries for export of fresh temperate fruits and vegetables to Malaysia.
- Thailand's key strengths are low prices of its foods and neighbors Malaysia by a land border. Thus trucks transport daily tropical fresh fruits, vegetables and fish from southern Thailand to various locations in Peninsular Malaysia and as far as Singapore.

Major Food Exporting Countries to Malaysia by Value of Imports

Country	Market Share in 2003
China	17.3%
Australia	16.4%
Thailand	13.0%
Indonesia	8.2%
New Zealand	6.4%
India	6.1%
United States	5.5%
Others	27.1%
Total	100.0%

Source: Malaysian Statistics Department

Closeness of Indonesia and India to Malaysia and low prices of their imports is their key strengths. Overall consumer perception towards imports from New Zealand is similar to Australia i.e. reasonably priced high quality foods. Consumer perception towards the quality of US food products is similar to Australian and New Zealand imports but US imports are generally higher priced.

4.2 Major Products Categories and Competitor's Market Share

Major Imports in 2003

Product Category	Major Supply Countries*	Strengths of Supplying Countries	Advantages and Disadvantages of Local Suppliers
Dairies (milk, cream, powder, butter, yoghurt, & cheese) Import: 219,653 tons (US$289.0 mil)	1. Thailand – 39% 2. Australia – 19% 3. N. Zealand – 19% 4. US – 1%	Products from New Zealand and Australia are well established due to aggressive promotion and diaries from Thailand are marketed by multinational companies.	Established food processing industry for diaries but dependent on imports of raw dairy food materials due to Malaysia's limited milk production.
Fruits (fresh or chilled) Import: 325,817 tons (US$118.4 mil)	1. China – 35% 2. Thailand – 12% 3. Australia – 10% 4. US – 9%	Low price imports of temperate fruits from China. Tropical fruits from Thailand are transported through land border with Malaysia while Australia is in opposite growing season from the US.	Local cultivation of tropical fruits is adequate to meet local demand but dependent on imports for temperate fruits.
Canned/preserved fruits (including tomato & jam) Import: 55,179 tons (US$57.1 mil)	1. China – 52% 2. Thailand – 18% 3. Turkey – 7% 4. US – 3%	China and Thailand cater to Asian fruit products while Turkey is well known for its tomato paste.	Local industry is mainly on pineapple products followed by other local fruits but not temperate fruits.
Vegetables (fresh or chilled) Import: 666,903 tons (US$210.0 mil)	1. China – 38% 2. India – 15% 3. Australia – 13% 4. US – 4%	Low price imports of temperate vegetables from China, while India is a major exporter of onions and Australia is in opposite growing season from the US.	Local cultivation is insufficient to meet local demand and dependent on imports for temperate vegetables.
Beef and lamb including processed Import: 113,684 tons (US$210.3 mil)	1. India – 40% 2. N. Zealand – 16% 3. Australia – 15% 4. US - 2%	Indian beef is lower in price than local beef while Australian and New Zealand meat are aggressively promoted as *halal.*	Local industry is small and fragmented to meet total demand for meat products.

Major Imports in 2003

Product Category	Major Supply Countries*	Strengths of Supplying Countries	Advantages and Disadvantages of Local Suppliers
Poultry Import: 38,858 tons (US$49.1 mil)	1. Thailand – 35% 2. Denmark – 28% 3. Netherlands – 12% 4. US – 5%	Thailand's closeness to Malaysia shortens delivery time while Denmark and Holland is a traditional supplier of imported frozen *halal* poultry.	Well established and organized poultry industry but dependent on imported animal feed.
Fish (fresh, chilled, or frozen) Import: 269,588 tons (US$185.0 mil)	1. Thailand – 31% 2. Indonesia – 20% 3. China – 6% 4. US – 1%	Low price imports from these countries and short delivery time due to closeness to Malaysia.	Established fishing industry but dependent on imports since seasonal monsoons hinders fishing.
Canned and preserved seafood Import: 28,323 tons (US$36.8 mil)	1. Thailand – 55% 2. China – 26% 3. Chile – 9% 4. US – 1%	Thailand well known for it's competitively price canned tuna fish and sardines while China for various seafood products.	Cheaper imports of processed fish products from Thailand and China limits expansion of the local industry.
Shellfish & crustaceans fresh, chilled, or frozen) Import: 45,772 tons (US$101.5 mil)	1. China – 27% 2. Indonesia – 20% 3. Thailand – 17% 4. US - <1%	Low price imports from China, Indonesia, and Thailand and short delivery time due to closeness to Malaysia.	Well established local industry with breeding facilities and one of the world's major exporters of prawns.
Fruit juice including vegetable juice Import: 20.2 mil liters (US$24.7 mil)	1. Netherlands – 13% 2. US – 10% 3. Australia – 9%	Netherlands, US, and Australia are known for a variety of juices originating from temperate fruits and noted for their high quality.	Local industry is dominated by local and multinational companies but juices considered less "pure" than imports.
Baked goods Import: 25,862 tons (US$18.2 mil)	1. China – 67% 2. Indonesia – 8% 3. Thailand – 8%	China produces mainly Chinese or Asian baked goods for export while many Indonesian and Thai companies produce western bakeries for export.	Local manufacturers produce a wide range of baked goods but mostly targeted at the low to mid-end market.

Major Imports in 2003

Product Category	Major Supply Countries*	Strengths of Supplying Countries	Advantages and Disadvantages of Local Suppliers
Confectionary Import: 14,977 tons (US$20.6 mil)	4. China – 28% 5. Indonesia – 23% 6. Philippines – 16% 7. US – 1%	China produces Asian style confectionary while imports from Indonesia and the Philippines are mostly from multinational companies.	International brands produced by multinational companies or local companies (under license) are widely available.

*Source: Malaysian Statistics Department and trade sources. Note: *US included if not among the top three major suppliers.*

5. Best Product Prospects

The best product prospects are developed from a broad base study of the Malaysian market and should not be construed as detailed market studies of each segment. US exporters who are interested to develop viable markets should consider conducting a detailed market study for the products they represent.

5.1 Products Having Good Sales Potential

Product Category (HS Code)	2003 Market Size Estimate	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Poultry (HS 0207)	1.4 mil tons	38,858 tons	None for fresh, chilled, or frozen. 5% sales tax for processed.	Large poultry companies dominate the local industry with Thai imports supplying northern peninsular and *halal* imports from Denmark and the Netherlands.	Niche market for turkey (US is a major supplier) especially during Christmas. No commercial rearing of turkey in Malaysia. Market for processed poultry such as hot dogs and salami.
Beef and lamb including processed (HS 1601, 1602, and 0202)	155,000 tons	113,684 tons	None for fresh, chilled, or frozen. 5% sales tax for veal. 0-20% import duty and 5% sales tax for processed.	Low price beef from India and aggressive promotion at retail outlets by Australian and New Zealand exporters as *halal* meat.	Rising consumer income has created demand especially for high quality meat but Malaysia is unable to supply sufficiently to meet demand.

Product Category (HS Code)	2003 Market Size Estimate	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Fish (fresh, chilled, or frozen) (HS 0304)	1.4 mil tons	269,588 tons	None	Established local industry complemented by low price imports from Thailand, Indonesia, and China. Most consumers are unfamiliar in cooking coldwater fishes.	Niche market for cold-water fish, such as salmon and cod, for use in western cooking among middle to high income consumers.
Shellfish & crustaceans (fresh, chilled, or frozen) (HS 0306 to 0307)	370,000 tons	45,772 tons	0-20% import duty for and for some 5% sales tax.	Development of the local industry and marine farms are supported by the government.	Market for more “exotic” seafood. Cold storage facilities in supermarkets and hypermarkets widen market for frozen seafood.
Canned seafood (HS 1604)	52,000 tons	28,323 tons	0-20% import duty and for some 5% sales tax.	Overall consumer preference for fresh or chilled seafood for cooking.	Ready to eat canned tuna and mackerel are popular.
Fresh vegetables (HS 0701 to 0709)	1.4 mil tons	666,903 tons	No import duty or sales tax.	Competition from locally grown “tropical” vegetables. US imports competes with fresh produces from China since both are in the same growing season.	Demand for vegetables from the temperate climate but cultivation is limited to the highlands and therefore dependent on imports.
Fresh fruits (HS 0803 to 0810)	2.3 mil tons	325,817 tons	5% import duty and for most 5% sales tax.	Competition from tropical fruits grown abundantly in Malaysia.	Demand for temperate fruits, which Malaysia has to import.

Product Category (HS Code)	2003 Market Size Estimate	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Processed fruits (mostly canned and dried) (HS 2008)	83,800 tons	21,998 tons	0-10% import duty and for some 5% sales tax.	Consumer preference for fresh fruits than canned or dried.	Canned peaches and pears and preserved fruit snacks have a niche market.
Soft drinks including juices (HS 2009)	159.1 mil liters	20.2 mil liters	0-30% import duty and for most 5% sales tax.	Competition from locally produced carbonated drinks, juices, and Asian specialty drinks.	The US is a major supplier of fruit juices and there is no import duty and sales tax for infant fruit juice and grapefruit.
Sauces and condiments (HS 2103)	65,600 tons	7,330 tons	0-20% import duty and for some 5% sales tax.	Consumer preference for locally produced sauces used for local cooking and dishes.	Increasing acceptance of western foods and the US is a major exporter of sauces for such foods.
Bakeries (HS 1905)	130,000 tons	25,862 tons	0-20% import duty and 5% sales tax.	A wide variety of locally produced bakeries including international brands at competitive prices.	Consumer health trends have created demand for healthier bakeries such as high fiber, low fat, or high calcium bakeries.
Confectionary (HS 1704 and 1806)	26,000 tons	14,997 tons	15% import duty and 10% sales tax.	Consumption of confectionary is mostly confined to younger age consumers.	Promotion of quality chocolate confectionary in small packaging is creating demand from middle income consumers.

Source: Malaysian Statistics Department, Euromonitor, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

5.2 Potential Products Not Present in Significant Quantities

Product Category (HS Code)	2003 Market Size Estimate	2003 Imports	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Breakfast cereals (HS 1904)	10,300 tons	5,300 tons	2-7% import duty and 5-10% sales tax.	Consumer preference towards local dishes and bread as a breakfast menu.	Promotion of cereals targeted at young children, as a health food, and as an ingredient for homemade cookies creating demand.
Butter (HS 0405)	8,614 tons	8,614 tons	2% import duty and 5% sales tax.	Competition from margarine as a healthier substitute for butter.	Malaysia does not produce butter and therefore depends on imports.
Jam, nut based, and chocolate spreads (HS 2007)	7,900 tons	3,074 tons	No import duty but for some 5% sales tax.	Competition from low price local jams with lower fruit contents and competitively priced quality imports from Australia and Europe.	Demand for higher price quality jams and spread with high fruit, nut, or chocolate content.
Cheese and curd (HS 0406)	5,651 tons	5,651 tons	5-10% import duty and 5% sales tax.	Malaysia is a traditional market for cheeses from Australia and New Zealand and therefore popular among consumers.	Malaysia does not produce cheese and therefore depends on imports.
Pasta (HS 1902)	2,357 tons	2,357 tons	5-8% import duty and for some 5% sales tax.	Most consumers are accustomed to local noodles and unfamiliar with cooking pasta based dishes.	Introduction of pre-cooked canned/bottled spaghetti sauce has created demand for pasta.

Source: Malaysian Statistics Department, Euromonitor, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

5.3 Products Facing Significant Barriers

Products Facing Significant Barriers

Product Category	2003 Market Size	2003 Import	Import Tariff Rate	Key Constraints Over Market Developments	Market Attractiveness for US Exporters
Rice (HS 1006)	2.4 mil tons	840,000 tons	No import duty or sales tax	Imports are monopolized and controlled by Bernas (a government corporation) importing mainly from Myanmar, Vietnam and Thailand. Furthermore, per capita rice consumption is gradually declining in favor of bread.	Rice remains Malaysia's staple food and there is a demand for premium grade rice from Malaysia's middle to high-income urban population.

Source: Malaysian Statistics Department, trade sources, Spire analysis, and Malaysian Customs Tariff on Import/Export.

END OF REPORT